formerly Merchandising Week

A GRALLA PUBLICATION

JANUARY 1980

Merchandising

PUBLISHED FOR AN INDUSTRY WITH MORE THAN TODAY ON ITS MIND

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Formerly Merchandising Week

Merchandising

FOR OVER 60,000 READERS
51,000 RETAILERS

PUBLISHED FOR AN INDUSTRY WITH MORE THAN TODAY ON ITS MIND

January 1980

Electronics Overviews

Not to worry. It won't be a bad year at all, this 1980, if everyone works hard and plays their cards right. At least that's what we're told by a lot of knowledgeable marketing executives who have been putting together the plans, programs, products and policies to make it all happen this new year.

This detailed collection of market overviews—product category by category—was put together by Ron Schneiderman, Jim Schneider and freelancer (and former *Merchandising* staffer) Jane Wollman.

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Housewares Overviews

Housewares manufacturers in every product category see first-half business as good—but not sensational. Quality basics should be unaffected by a softening in the economy. Some even feel this is a plus for housewares business. People staying at home more are inclined to purchase products that make cooking, entertaining, cleaning and personal care more convenient and pleasurable.

Overviews were compiled by Lois A. Panosh, with assistance from Jack Blood and Joyce Jarcho.

Prerecorded Videocassette Report

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The naked truth is that the X-rated videocassette market is growing. But its share of the total video market is slipping as more and more general release material, particularly major motion pictures, are introduced. The bottom line, so to speak, is that there's still profit in porn.

And there's profit in *Merchandising's* Top 50, led this month by "The Godfather."

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Transshipping: Curse or Blessing

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That transshipping is a very contentious word may be easily seen from the vehement comments elicited by this month's RETAIL OPINION FILE. Few are indifferent, and most respondents regard transshipping either as an unmitigated evil, or as the salvation of smaller dealers in their constant battle to survive the depredations of off-price mass merchandisers.

NAHB Preview

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While most major appliance manufacturers are predicting a flat 1980 for themselves, they cite growing strength of the replacement market and their belief that they will be able at least to hold their own, compared with 1979 sales.

The big problem this year will be the downturn in housing starts, representing about one-third of the total market.

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McGraw-Edison has agreed in principle to sell three of its consumer products divisions: Toastmaster, Ingraham and Edison to a new company formed by Oppenheimer & Co., investment banker, and some former McGraw executives 132

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Gold Star Electronics, the giant Korean tv and audio OEM supplier for several American firms, is expanding in the U.S. market into additional electronics, housewares and appliance products under its own label 130

Trendings

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- Major appliance retailers are hopeful, but concerned about the economy's cloudy first-half outlook.
- Growing at-home emphasis by consumers pleases non-electric housewares merchants.
- The mood of electric housewares buyers facing the next six months runs the gamut from A to Z.
- A slowing economy will dampen first-half video entertainment business, but not by too much.
- Audio dealers' hopes for 1980 hinge on supplier programs and sharp pricing.
- Personal electronics buyers expect their holiday stars will twinkle for them in early 1980.

Store Operations

The rising costs of credit will be a continuing retail fact of life for the '80s. Already some suppliers are changing or abandoning dating programs, while banks and finance companies put the squeeze on consumer credit. Current Fed policies are making "cheap" money a thing of the past.

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From the Capital

Commerce Department economists have put together a rather bleak picture of the household appliance industry for 1980. But they look for long-term improvement.

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Coming in February:

★ There are always some retailers who go against the grain, the ones who bloom while others fade. Merchandising takes a close look at a group of major appliance pacesetters.

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Retail Opinion File

Merchandising touches a sensitive nerve

Transshipping: Is it a curse or a blessing?

That transshipping is a very contentious word may be easily seen from the vehement comments elicited by this month's Retail Opinion File. Few are indifferent; most respondents regard transshipping either as an unmitigated evil which will spell the death of brand merchandising, or as the salvation of smaller dealers in their constant battle to survive the depredations of off-price mass marketers.

But one dealer who anticipates neither heat nor light on the issue coming from this survey flatly states: "If you think anyone would answer this truthfully, you are as naive as the U.S. government."

Although we cannot measure the degree of government naivety, we are able to report that 20% of the respondents to this poll admit to working with transshippers. And of those who do, they note that they do an average of 37% of their business in transshipped electronics and 31% of their sales in major appliances.

Furthermore, these retailers of transshipped merchandise claim their averages will increase this year to 38% for electronics and 34% for white goods.

The days when transshipped electric housewares was the lifeblood of many a discounter apparently have passed. The average for sales of transshipped housewares is a much smaller 13% in 1979 and only 12% expected for 1980.

Regardless of whether conventional wisdom regards these figures as frighteningly large or laughably small, those in favor of the practice have their strongly-held reasons.

"Why miss a sale due to the fact that you don't have a certain item, when you can have access to it from another dealer?" asks one respondent.

"I think dealers should have the right to buy and sell whatever they wish in a free marketplace," asserts another retailer, who adds, "it allows me to compete with dealers who push lines on which they have regional exclusivity."

And another comments in a more philosophical vein: "Transshipping, in one form or another, has been going on since the American Revolution! And it will be here for hundreds of years more."

Still another respondent laments, "It stinks but the prices are good!"

But the most common comment is, "It helps me to be competitive and make higher margins." And in fact, 39% of the respondents handling transshipped goods claim their margins are higher on merchandise from this source, compared with 35% who say their profit margins are the same and 26% who cite lower margins.

However, one of the few dealers who admits to being a transshipper rather than a transshippee has this to say: "We transship both electronics and major appliances. The profit margin is low, but we pick up advertising dollars."

But the comments from the 80% who do not handle transshipped merchandise are also vehement:

"It stinks to high heaven."

"It's the lowest level of business ethics."

"I don't trust them. It should be illegal."

"They're no better than black marketeers. They're parasites!"

"It disrupts the local market. Smaller dealers cannot compete."

"It will mean the eventual downfall of the independent merchant!"

"The transshipper should lose his franchise."

The issue of franchising is as much on the minds of respondents as the morality of transshipping. As one dealer notes, "Retail franchises mean little enough now—transshipping subverts the value of a franchise even further."

And another retailer opines, "I believe the federal government must now step in to return to manufacturers and distributors the right to control how their customers handle their products. If not, small businesses and their valued franchises are doomed."

However, only 27% of respondents involved in the practice of transshipping say they get pressure from their regular suppliers to stop it. Which may explain why so many dealers feel the manufacturer and distributor are also respgnsible for transshipping.

"If distributors could enforce franchises, transshipping would not be necessary," says one retailer.

"Distributors are getting worse and worse about overfranchising," complains another, adding, "I wish we could buy from whomever gives us the best price."

"The manufacturer is the one to stop it. Their greed is plain—they look the other way like it was not happening," charges still another.

"Put the fault on the manufacturers AND the distributors," fumes a dealer. "Ask them why they have four different price sheets."

"Transshipping must be stopped," insists another respondent, "or manufacturers and distributors will lose any dealer loyalty they may have left."

But another retailer wistfully says, "I hope I live to see the day that manufacturers and dealers will stop prostituting the industry."

Pro or con, there can be little doubt that transshipping is a hot topic, except perhaps for one major appliance dealer who plaintively wrote across his copy of the questionnaire: "What the hell is transshipping?"

Questionnaire

Which of the following types of merchandise do you sell?*

Electronics	76%
Major Appliances	68%
Electric Housewares	19%

Are you currently working with a transhipper?

Yes	20%
No	80%

In 1979, what percentage of your dollar volume in each of the following categories was accounted for by merchandise from transshippers?**

Electronics	37%
Major Appliances	31%
Electric Housewares	13%

What do you expect these percentages will be for 1980?**

Electronics	38%
Major Appliances	34%
Electric Housewares	12%

Do you pay the transshipper cash on delivery of goods?

Yes	63%
No	37%

Does the transshipper drop-ship to your customer or does he ship to you for delivery to your customer?

Drop-ships	4%
Ships to me	80%
Both	16%

Is your profit margin on transshipped goods higher, lower or about the same as on goods from your regular suppliers?

Higher	39%
Same	35%
Lower	26%

Have you been getting any pressure from your regular suppliers to stop using the services of transshippers?

Yes	27%
No	73%

If you are not presently working with a transshipper, are you considering doing so in the future?

Yes	15%
No	85%

**Totals more than 100% due to multiple answers.*

***Percentage figures are averages.*

"If distributors could enforce franchises, transshipping would not be necessary."

See X-rated sales as high as 70% of total prerecorded market in '79

More than ever, there's profit in porn.

Currently, X-rated videocassettes account for up to 70% of total prerecorded tape sales, according to industry estimates, and although no firm figures are available, at least one educated estimate places total adult tape volume at $7-7.5 million.

Much of the increase in sales is due to an even more dramatic increase in the outlets stocking X-rated videocassettes. Tapes have moved from adult movie houses and book stores into video and appliance stores.

Improved sales of videocassette recorders have also further broadened the adult tape market.

Yet despite the volume growth in adult tapes, their share of total market may be slipping. This is primarily due to the ever widening variety of general release films being introduced.

Adult tapes account for 60-70% of the total prerecorded videocassette market, according to David Friedman, chairman of the board, Adult Film Association of America. Friedman also heads TVX, X-rated tape distributor, and Entertainment Venture Inc., which handles general releases.

$7-7.5 million

For 1979, he estimates, porn tape sales totalled about $7-7.5 million industry-wide. He reached that figure by multiplying his own company's $1.5 million 1979 sales roughly by five—the number of major distributors—and "adding in the little guys."

This represents an increase of about 30% over 1978 volume, he said. In fact, his company's sales have jumped about 75% in the past three years.

"Our first year in business (1975), we made $800,000 in gross sales. In 1978, that figure reached a little over a million dollars. This year it was about $1.5 million." For 1980, he projects another 50% increase.

TVX now distributes 2,500 adult titles, out of a total 3,800. A major factor contributing to the substantial increase in adult tape volume is the number of outlets now carrying the category.

During TVX's first year in business, its tapes were stocked "only in adult theatres and adult book stores," said Friedman. "That's a very small part of the business now. Today, the average hardware dealer in every town carries them.

Over 700 customers

"When we started," he added, "we had maybe 35 customers. Today there are over 700." Further, Friedman says he doesn't know of any part of the country that is not handling adult tapes right now. "We ship to 50 states."

And while TVX does not currently sell to major department stores, Friedman expects those outlets to start carrying adult tapes "within the next year to year and a half." In that event, however, "the labels and titles will have to be subdued greatly."

And Quality X's president Robert Sumner reports that some major appliance chains are already carrying the line. He says adult tape sales have tripled in the past 12 months both for

Merchandising's TOP 50

	Last Month's position	Months on chart
1. The Godfather	6	6
2. Saturday Night Fever	8	6
3. The Godfather II	9	3
4. M*A*S*H	1	15
5. The Sound of Music	3	10
6. Murder on the Orient Express	34	3
7. Looking for Mr. Goodbar	22	3
8. Butch Cassidy & the Sundance Kid	4	3
9. Marathon Man	27	2
10. Patton	2	15
11. Wild Geese	7	11
12. King Kong (new)	N	1
13. Carnal Knowledge	13	12
14. The Man Who Would Be King	28	14
15. The French Connection	5	15
16. The African Queen	11	6
17. Barbarella	43	3
18. The Dutchess & the Dirtwater Fox	49	3
19. The Longest Day	15	15
20. Love Story	N	2
21. The Adventures of Sherlock Holmes' Smarter Brother	N	1
22. Bruce Lee—Super Dragon	16	13
23. The King & I	20	15
24. Nashville	N	1
25. Hello Dolly	12	15
26. A Touch of Class	18	6
27. Papillon	19	13
28. Tora! Tora! Tora!	14	15
29. The Day the Earth Stood Still	40	9
30. Heckle & Jeckle	31	5
31. Mighty Mouse	24	12
32. The Hot Rock	35	13
33. The Graduate	10	12
34. Night of the Living Dead	17	7
35. Paper Chase	25	13
36. The Lion in Winter	29	10
37. The Betsy	N	12
38. Von Ryan's Express	26	15
39. Sand Pebbles	41	11
40. King Kong (old)	23	12
41. Tunnel Vision	21	7
42. Citizen Kane	42	13
43. The Sailor Who Fell from Grace with the Sea	30	10
44. Reefer Madness	N	2
45. History of the Beatles	N	6
46. A Man & A Woman	32	11
47. Fantastic Voyage	33	15
48. The Hustler	36	10
49. The Beatles at Shea Stadium	38	10
50. The Day of the Dolphin	N	8